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## *Issue Brief*

# What to Expect from Modi's Moscow Visit

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## **S***ummary*

Squeezed by Western sanctions, Putin appears to be turning to the old-trusted friend India as a fast-growing outlet for exports and also benefit from Modi's 'Make in India' drive to regain Russia's market share. Russia seems already worried about the US pushing several big-ticket items for co-production and co-development in India. Clearly, Modi's overt message last year that Russia is unable to satisfy the growing 'Make in India' demand appears to have been noticed in Moscow.

Prime Minister Narendra Modi is scheduled to visit Moscow on December 24 and 25 for the annual Summit Meeting with President Vladimir Putin. This will be his 23<sup>rd</sup> and probably last foreign trip during 2015 unless he also stops over in Kabul on his return from Moscow.

This time around last year, Indo-Russian ties were a bit frosty. Russians were complaining about the Americans overtaking them as the number one arms supplier to India. They expressed disquiet and even sought retribution by ending the arms blockade to Pakistan to offset the loss. Indians on their part were frustrated by the Russian failure to meet delivery schedules, tendency to increase costs, and reluctance to transfer technology and supply spares. In fact, ties with Russia had started drifting during the Manmohan Singh era, with deals inked on defence and nuclear issues remaining only on paper.

Now it seems that both Modi and Putin are all set not only to straighten the loose ends of existing projects but also bring new big items on the table. This could well bring back Russia as India's top military hardware supplier.

Modi is visiting Moscow after concluding a string of summit level meetings with the United States, France, Germany, Israel, United Kingdom and most recently Japan, at each of which defence and security aspects received robust attention. This, along with Modi's drumming up of foreign investments for his 'Make in India' initiative, would have made the Russians jittery about actually losing an established market.

The Modi visit comes against the backdrop of Western economic sanctions against Russia, fall in oil prices, Russia's war against ISIS in Syria, and its recent standoff with Turkey. *Much to India's surprise*, Moscow has shown remarkable resilience by weathering all the odds. It has stood up against the West and demonstrated its political strength and military prowess by taking on the ISIS in Syria. Clearly, Russia has rebounded on the world stage and, all said and done, it will be a factor in deciding the future course of the political settlement in Syria.

### Strategic Line

Although it is hard to find any firm Indian position on Russia's combat mission in Syria or on its standoff with Turkey, Modi *has so far eschewed from siding with the West over any crisis involving, be it Ukraine or Syria. This ambiguous stand underlines Russia's significance in India's geostrategic calculus, a position that no other power can replace and a circumstance that is not likely to be altered any time soon.*

So far, India has escaped the political ramifications, but at the same time it has also *failed to capitalize on* Russia's pivot to Asia. Only China seems to have benefited by intensifying economic and political ties with Russia. China has bailed Russia out through a series of big energy deals. This has also helped Russia significantly by offsetting its reliance on the European market. Russia's cooperation with China has since intensified. Here, it is worth mentioning that India had missed a similar opportunity *soon after the Soviet collapse. But it is not too late.* Russia's defence industry, except shipbuilding remains intact.

Squeezed by Western sanctions, Putin appears to be turning to the old-trusted friend India as a fast-growing outlet for exports and also benefit from Modi's 'Make in India' drive to regain Russia's market share. Russia seems already worried about the US pushing several big-ticket items for co-production and co-development in India. Clearly, Modi's overt message last year that Russia is unable to satisfy the growing 'Make in India' demand appears to have been noticed in Moscow.

Jolted by recent events, Moscow seems to have introduced trade restrictions that are spurring import and export substitution in some sectors. The diversification of the Russian economy is pushing companies to more actively integrate into the global economy and seek niches in high-value-added products, for example in food, agriculture, metals, chemical and textile products.

On his part, Modi is unlikely to slide on ties with Moscow. Modi and Putin have met each other several times during the year including at forums like BRICS, SCO, G20, etc. Modi also seems mindful of the risk of relying totally on the US, since the latter could falter on thorny issues like trade barrier, nexus with Pakistan, and possible snapping of cooperation should India opt for nuclear weapons testing. India also needs to be careful about the United States attempting to transform India into another client state like Pakistan.

### Fixing Strategic Holes in Defence

Modi's visit to Russia could help fix the critical strategic holes in India's military arsenal and the serviceability of existing weapons and equipment as highlighted by the Comptroller & Auditor General (CAG) in its recent stinging indictment. India has no option but to turn to Moscow for help in this regard. Indications are that a slew of big ticket defence deals worth USD 10 billion will be announced during Modi's visit.

Russia seems more than eager to make up for the loss in defence contracts and help India resolve discrepancies. Sukhoi is willing to supply spares for the existing 220 Sukhoi-30MKI fighter jets and even set up a regional servicing and maintenance unit in India.

The replacement of the vintage 129 Cheetah/Chetak helicopters has been long overdue. Modi might finalize a USD 1 billion project for manufacturing 200 Kamov-226T light helicopters in India. It seems that either Reliance Defence or Hindustan Aeronautics Limited (HAL) would be teaming up with the Russians to start the production line. This could, in fact, become the first major contract for producing weapons at home. In addition, there is also the case of purchasing 48 additional Mi-17V-5 helicopters.

Sukhoi is trying to enter the Indian aerospace sector to manufacture components for its jets with Tata. It seems that other local manufacturers like Reliance and Mahindra are also tying up with Russian firms for technology transfer to build weapons locally.

During the Modi visit, the big-ticket items could include a multi-billion-dollar deal for procuring additional Krivak III or *Talwar* class stealth frigates. It seems this too

will have a 'Make in India' tag, with Reliance joining as a partner to build the ships at its Pipavav Shipyard in Gujarat. Another big item whose procurement may be finalised during the visit is the S-400 *Triumf* anti-ballistic missile system. Designed to counter air attacks and protect major strategic installations, the S-400 could plug holes in India's air defence system.

The leasing of a second 12,000-tonne Akula-class nuclear submarine is also being talked about. The first 8,140-tonne Akula Class submarine - renamed as INS Chakra - was leased from Russia in 2011 for a period of 10 years. More clarity may also be found to fast-track the Fifth Generation Fighter Aircraft (FGFA) and Multi-Role Transport Aircraft (MTA).

On the nuclear front, there is no other way to bypass the nuclear liability issue but to allow the Russians to build additional reactors. Modi might offer Russia a site in Andhra Pradesh to build six nuclear reactors of 1,200 megawatts (MW) each.

It is important that Modi pushes for cooperation in outer space and satellite technologies. Once India joins the Missile Technology Control Regime (MTCR), collaboration with Russia on rocket engine manufacturing would become easier.

The prospects for promoting start-ups in nanotechnology for applications in aerospace and defence could boost 'Make in India' initiative.

### Seizing New Opportunities

Modi has to make headway on the "Make-in-India" initiative. Negotiations with the West would mean delay, which he cannot afford. In fact, the situation in Russia today is favourable for implementing Modi's narrative of linking diplomacy with the development agenda.

In this regard, it needs to be noted that the much hyped EEU-OBOR (Eurasian Economic Union and One Belt One Road) synergy to facilitate the flow of goods and investments across Eurasia is facing several roadblocks. Russia's trade with China has fallen by over 36 per cent due to the combination of recession in Russia and economic slowdown in China.

The good sign is that, on the eve of Modi's visit, the Cabinet approved ONGC Videsh Limited's purchase of a 15 per cent stake in Russia's Vankorneft operating in the Vankor oilfield for USD 1.26 billion. This is the first overseas energy deal since Modi came to power. Modi is right in seizing the opportunity when the oil market is down. Moscow has no option but to agree due to lack of access to Western funding, while the slowdown in the Chinese economy may have also contributed to OVL winning the Vankor deal.

Clearly, for India and Russia, the challenge is to shift from largely defence oriented ties to promoting greater economic and trade partnership for long term interests. India's trade turnover with Russia, targeted to achieve USD 20 billion by 2015, still hovers around at a paltry USD 9 billion. The reasons are well known, but steps to bridge the gap are not in evidence.

Modi may well have some surprises in store to boost ties with Russia. Cooperation on terror aside, Modi should seek opportunities for Indian firms to occupy the space in the Russian market vacated by Turkish and other European companies. India already enjoys a niche market in pharmaceuticals, fertilisers, agriculture, and leather products. With Russia restricting imports from the West, India could upscale its export of food, dairy and meat items. But Russians are stubborn and good at hard bargaining. They would allow Indian entry provided India addresses the festering unresolved issue relating to AFK Sistema and Titanium project.

A joint study group has proposed a Free Trade Agreement between India and the Eurasian Economic Union (EEU) and has contended that this could potentially revive trade ties to the level of the earlier Indo-Soviet trade pattern. The EEU market with nearly USD 3 trillion GDP could become a substitute for the drying up markets in Europe. However, the EEU itself is not a happy economic union and is undergoing a bad phase since the Western economic sanctions, fall in oil exports and China's dumping of goods.

The Modi government should think of other innovative ideas such as creating a joint innovation fund and a scheme to attract fine Russian scientists to work in Indian scientific centres. It is also time that Indians started acquiring Russia's colossal technological and strategic assets. Russia's natural resources spread across a vast territory are being speedily absorbed by Chinese and South Koreans. Steps were long needed to take Indian entrepreneurs and skill workers to these places.

Finally, only a blockbuster energy deal and a long-distance pipeline from Russia to India can replace the waning defence business and usher in higher trade so that a sense of balance in relations can be reintroduced.

### **Moscow Must Change its Style**

Moscow should understand that India's ties with Russia are not comparable to India's engagements with other powers. Russia offers little traction for investment, business and education. For sure, the size of the Indian diaspora in Russia—needed to push for stronger ties—is tiny compared to elsewhere.

Russian politicians and bureaucrats customarily talk about the need to work on each other's potentials (technology, skill, resources and market). Yet Indian businessmen regularly complain about their business experience in Russia, in particular the language barrier and stiff travel regulation, which impede interactions.

Russia should change its diplomatic style too. There is a growing gap between Russia and India in perceptions about each other on various regional and international issues. Russian think tanks are poorly funded and the field of Indology is almost dead. Today, Indologists seem to have no influence in the policy-making circles.

Instead of feeling slighted, Russia should rectify discrepancies and update the scope of cooperation with India. Russians are not strangers to the Indian market,

bureaucracy and style of doing business in India. Their experiences in India have ranged from managing heavy industries and nuclear plants to producing SU-30 aircraft, T-90 tanks and BrahMos missiles.

Russia should also step up its investments in India, which currently stands at around USD 3 billion. Barring a few firms like Sistema, Rusal and others, no major Russia giant has ventured in India.

The good news is that apart from Sukhoi, the energy giant Rosneft is seeking investment avenues in India's potential solar energy market and is promising to produce up to 20,000 MW. Russian investments are also needed in areas other than diamonds, information technology and pharmaceuticals.

### Strategic Trust

Clearly, the political trust and comfort level with Russia has not disappeared despite all the rhetoric over India's growing closeness to the United States and Russia's increasing proximity to China and Pakistan. In fact, in spite of all the *proclivity* of inching towards the West, *Indian public* statements are still in favour of Russia. As Modi himself told Putin, "Even a child in India, if asked to say who is India's best friend, the reply will be Russia."

New Delhi perhaps understands that Moscow's courting of Islamabad could be linked to its own current international isolation. Moreover, Russia's pivot to Pakistan is linked to Afghanistan. Here, New Delhi needs to ascertain whether Moscow's thinking on talks with the Taliban and the situation after the Kunduz episode are in line with New Delhi.

### Road Ahead

In the years ahead, Russia's pivot to India will assume greater urgency, but India will always walk a fine line between Russia and the West in their frequent standoffs.

The Kremlin should know that Modi's government is visualizing India playing a far more strategic role than simply being a balancing factor for the United States. It could simply be playing on the strategic competition between Russia and the West similar to what India is trying to gain from Sino-US competition. In fact, a balanced

### **Delhi-Moscow-Washington triangular relationship would have huge potential to make an impact on world politics.**

Clearly, both Modi and Putin stood up as strong leaders and captured the same image of being nationalistic in their approaches to domestic and foreign policy issues. Yet, Modi has proved to be savvier in dealing with other world leaders, something that Putin could learn.

To be sure, Modi is keen on turning around the relationship with Russia in a big way. But Putin and Modi have to build closer chemistry, at least to the level of what is being seen between Putin and Xi Jinping.

Modi does not need to conduct road shows in Moscow as the Russians themselves continue to sing *awara*, though he needs to fine-tune India's soft power to suit the new generation of Russians. He does not need to fear any street protests in Moscow that would echo the voices at home talking about growing intolerance.

Even Putin likes to play the soft power card. In the midst of Russian fighter aircraft bombing ISIS hideouts in Syria, Putin found time to visit Buryatia to be amongst the Russian Buddhists. Modi also needs to tag the Buddhist heritage for diplomacy in Moscow.

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